

A Scramble for Rents
Foreign Aid and Armed Conflict

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Abstract

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Previous research has not specified the circumstances under which foreign aid may increase the probability of armed conflict. The purpose of this dissertation is to address this gap by employing a theoretical framework in which foreign aid produces incentives for a rent-seeking scramble among elites. A set of conditions affecting the likelihood of armed conflict are identified and tested on global data in a series of statistical analyses. Paper I argues and finds that foreign aid increases the probability of armed conflict in states where there are few constraints on executive power, allowing for a scramble for rents. Paper II proposes and finds a threshold effect of aid, such that the likelihood of armed conflict increases only when aid has reached a certain level. Paper III suggests and demonstrates that sudden negative changes in aid flows enhance the risk of armed conflict as well as coup attempts, as aid shortfalls accelerate distributional conflict over aid rents. Paper IV claims and shows that civil wars are less likely to be terminated by settlement in the form of elections when conflict parties are dependent on rents. In sum, this dissertation contributes by theoretically specifying and empirically identifying conditions under which foreign aid increases the probability of armed conflict.

Keywords: armed conflict, civil conflict, civil war, coup d'etat, foreign aid, rents, institutions, aid dependence, aid shocks

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Introduction

Each year, large volumes of foreign aid and development assistance are channelled from donors to aid recipients in the developing world. The goal is to alleviate hunger and devastation and to promote development and good governance without jeopardizing peace. Although aid is meant to be solely beneficial for the recipient country, the aid community as well as the research community has long been concerned with the possibility that aid may sometimes do harm, despite donors' good intentions (see for example Anderson 1999; Easterly 2006). However, we have little general knowledge about the conditions under which aid may increase or decrease the prospects for maintaining peace. The purpose of the dissertation is to address this gap.

The papers in this dissertation are situated in a common theoretical framework brought together from a set of notions in rent-seeking literature. As a point of departure, this dissertation conceives of foreign aid as non-tax revenue, i.e. a rent, which produces certain incentive structures for economic and political behavior. Specifically, I propose that aid produces incentives for rent-seeking behavior and distributional conflict – a scramble for rents – among elites which under certain conditions may increase the probability of conflict. Each of the four papers in this dissertation specifies and identifies such conditions.

Employing data on armed conflicts and foreign aid flows for the period 1960-2004, I find that aid does have an impact on the probability of armed conflict.¹ Specifically, I claim and show that institutions mediate the relationship between foreign aid and armed conflict in that higher volumes of

¹ In this dissertation I use the terms armed conflict and civil war interchangeably to refer to armed conflict within countries. In Paper 3 I also use the term civil conflict for a distinct subset of armed conflict where coup events have been excluded.

aid are linked to an increased probability of armed conflict in states where there are few constraints on executive power. It is suggested that in countries where there are few institutions that regulate government behavior, an abundance of aid allows for escalating competitive rent-seeking behavior between elites, hence raising the probability of armed conflict. The implication is that institutions play an important role in inhibiting rent-seeking incentives from translating into unchecked scrambles for rents (Paper 1). I also propose and find support for a threshold effect of foreign aid on conflict risk, suggesting that aid increases the probability of conflict only when aid levels are sufficiently high to constitute a valuable prize for rebels, or when states are aid dependent (Paper 2). Furthermore, I suggest and demonstrate that sudden negative changes in aid flows increase the risk of armed conflict as well as of coup attempts. It is proposed that aid shortfalls represent a type of shock to the supply of rents which shortens time horizons of elites, hence accelerating distributional conflict over aid rents. I also find some support for a differential effect of high aid levels on conflict risk and coup risk; conflict risk is increased in states with a higher level of aid whereas coup risk is reduced (Paper 3). Finally, I argue and find that civil wars are less likely to be terminated by settlement in the form of elections when conflict parties are dependent on non-tax revenue and when they receive foreign military support. The implication of this is that dependence on rents may potentially obstruct certain types of conflict settlement (Paper 4). In sum, the findings in these four papers are consistent with the notion that foreign aid may contribute to conflict through its potential for promoting rent-seeking behavior and distributional conflict among elites.

This dissertation provides a theoretical contribution in that it suggests an explanation for how and why aid might lead to an increased risk of conflict, as well as how it might impede conflict resolution. It also provides empirical contributions by identifying and demonstrating a number of circumstances under which aid increases the probability of conflict, something which has not previously been done in quantitative studies.

This chapter introduces the four papers of the dissertation. The first section reviews previous empirical and theoretical research on foreign aid and armed conflict. The next section introduces the common theoretical framework of the dissertation whereas the third section provides a discussion of data and method, elaborating especially on the nature of foreign aid and aid allocation. The fourth section presents the four papers by summarizing their respective theoretical arguments and main findings emphasizing the respec-

tive contributions. The final section provides general conclusions and discusses possible future research paths.

Previous Research

In empirical research the systematic study of the link between foreign aid and the risk of armed conflict has received relatively little attention. A handful of quantitative analyses have addressed the relationship between aid and the outbreak of armed conflict. Neither of the studies has found evidence of a direct relationship between aggregate levels of aid and the likelihood of civil war.

The first quantitative study on the effects of aid on the risk of armed conflict was made by Collier and Hoeffler in 2000 (published in 2002) in which they investigate the effects of aid and economic policy on the risk of civil war. The authors argue from a rent-seeking perspective that aid should deter rebellion by strengthening the state and its deterrent capacity. Aid rents should not increase the value of taking power for rebels as aid may dry up in the event of rebel victory. Moreover, Collier and Hoeffler argue that rebels are primarily aiming for access to natural resource rents rather than state capture. Nevertheless, they find no direct effect of aid on the risk of war. Instead, they argue that aid has a substantial indirect conflict-reducing effect that goes through growth and that this effect of aid is conditional on the quality of economic policies. This is in line with an influential strand of research on aid and growth/economic performance which has found the effect of aid on growth to be dependent on the policy environment (Burnside and Dollar 2000; Collier and Dollar 2002). Collier and Hoeffler argue that aid decreases the risk of war through growth, but only in those cases where government policies are sufficiently good. However, they do not test this proposition empirically but arrive at the conclusion indirectly through separate analyses of the variables of interest (Collier and Hoeffler 2000; Collier and Hoeffler 2002).²

Arcand and Chauvet replicate and modify the Collier and Hoeffler study, and, as Collier and Hoeffler, they find no evidence of a direct effect of aid

² Collier and Hoeffler's explanation hinges on the existence of a positive link between aid and growth. Research so far is inconclusive in regard to a robust positive effect of aid on growth (see Rajan and Subramanian 2008).

on the risk of war. Furthermore, they find no evidence of the growth effect suggested by Collier and Hoeffler (Arcand and Chauvet 2001).

de Ree and Nillesen also take the Collier and Hoeffler study as a point of departure in their analysis that investigates the direct effect of aid on both the onset and the duration of armed conflict. Although they find that aid significantly decreases the duration of armed conflict, they find no evidence of a direct effect of aid on the likelihood of the onset of armed conflict (de Ree and Nillesen 2009).³

A couple of recent studies have moved away from the study of aggregate aid flows and have instead focused on particular types of aid and conflict risk. Democracy assistance has been found to reduce the risk of armed conflict (Savun and Tirone 2011) whereas food aid has been found to increase the risk of armed conflict (Nunn and Qian 2012).

A recent study has also been made on the dynamic aspects of aid flows, where aid shocks are found to contribute to armed conflict (Nielsen, Findley et al. 2011). This study addresses the conflict-inducing effects of aid shortfalls as a result of bargaining failure in a situation where governments utilize aid for side payments in order to pacify potential rebels. In the presence of aid shocks side payments can no longer be upheld and governments suffer a commitment problem vis-à-vis rebels. An earlier study has examined the degree of variability – or volatility – of aid flows suggesting that the uncertainty of aid flows, in terms of unexpected variability, contributes to the outbreak of conflict (Arcand and Chauvet 2001). The difference in focus between these two studies should be noted. The study on aid shocks considers separate incidents of large absolute changes in aid flows, whereas the latter study focuses on the size of the variation (regardless of the direction) over a particular time period in relation to an expected trend. The uncertainty of aid in terms of the difference between committed and disbursed aid has also been found to contribute to the onset of armed conflict (Steinwand 2008).

In the theoretical literature, one model can be identified that explicitly deals with the expected effects of aid on the risk of armed conflict. Building on a more general formal model on insurrection (Grossman 1991), Gross-

³ de Ree and Nillesen improve on the Collier and Hoeffler study by controlling for country-fixed effects. Arguing that aid is endogenous to armed conflict – both the anticipation and the occurrence of armed conflict – the authors address this by instrumenting for aid employing various measures of donor GDP.

man stresses the role of rents, or free resources, for fostering incentives for competitive rent-seeking that raise the probability of armed conflict.⁴ He shows how foreign aid should lead to conflict by increasing the value of taking state power. Incentives to go to war in order to take control over surplus resources are thus strengthened for potential rebels. Conversely, incentives for governments to hold on to power are increased. Aid induces rent-seeking behavior for all actors in society which lowers productivity and as a result lowers the opportunity costs of rebellion (Grossman 1992).⁵ Although Grossman's model provides the logic for how foreign aid may induce conflict, it provides few immediate implications that allow for empirical testing as some central parameters are undefined.

In sum, previous research on aid and armed conflict is scarce and the empirical research that does exist is inconclusive, especially in regard to whether, and how, aid levels may contribute to conflict. Although grounded in a rent-seeking perspective, these authors and I reach different conclusions in regard to whether particular conditions can be identified for when rent-seeking incentives should be increased, and consequently how these should be modelled.

Introducing the Common Theoretical Framework

The papers in this dissertation revolve around a set of shared notions. While these do not form a single coherent theory, they combine into a logic which illustrates some paths through which aid can influence the probability of conflict. These notions can be traced to a large and disparate literature, mainly situated within political economy, united by its focus on rent-seeking. Seminal work on rent-seeking include Tullock (1967) and Kreuger (1974). Rent-seeking underlies formal analysis of conflict specifically in regard to contest models (see for example Hirshleifer 1989; Garfinkel 1990; Grossman 1991; Skaperdas 1992). The formal logic of rent-seeking incentives specifically in regard to aid and conflict, has been demonstrated by

⁴ In a recently published book, Besley and Persson (2011) formulate a model with similar predictions on aid and civil war.

⁵ The additional resources in the form of aid will simultaneously allow for a strengthening of the deterrent capacity of the state through the channelling of resources into the military. However, the model does not specify when the deterrent effect of aid will outweigh the conflict-inducing incentives, hence altering the direction of the net effect of aid.

Herschel Grossman (1992). Covering numerous topics, rent-seeking is central, for example, in the analysis of aid effectiveness (for an overview of this literature, see Clemens, Radelet et al. 2004; Rajan and Subramanian 2008) and of state failure in Africa (e.g. Herbst 2000; Reno 2000; Bates 2008).⁶

The notions that I bring from the diverse literature on rent-seeking combine into a logic concerning incentives for conflict, which I refer to as the scramble for rents. This serves as the common theoretical framework and starting point for the papers in my dissertation. Each paper connects to different parts of this logic and specifies when incentives for armed conflict should be increased.

As a point of departure, this dissertation conceives of foreign aid as a rent. Government revenue consists of two main sources: taxes on economic activity in which both the state and citizens are involved, and non-tax revenue which can also be referred to as a rent, i.e. unearned income – or free resources – in the sense that it requires little effort on the part of the government and no effort on the part of the citizens to produce (Moore 2001; Moore 2004; Smith 2008; Morrison 2009).⁷ Aid belongs to the latter category and has generally been given to – or through – governments.⁸ It thus provides regimes with an additional resource over and above revenue collected from domestic economic activities, notably from taxes on labor. This affects the relationship between state and citizens.

In principle, when states depend on tax revenue stemming from the people, state and citizens share common interests: prosperity increases tax revenue and increased tax revenue may be further invested in promoting prosperity. In this stylized situation states and citizens are dependent on each

⁶ Rent-seeking is also central in the resource curse literature dealing with natural resources and their relationship to the economy (e.g. Auty 1993; Sachs and Warner 1995), political factors (e.g. Ross 2001; Smith 2004) and conflict (for overviews of this literature, see Ross 2004; Humphreys 2005; Basedau and Lay 2009), as well as related literature on rentier states (e.g. Mahdavy 1970; Beblawi 1987).

⁷ The term ‘unearned income’ more directly implies the connection to taxation of citizens’ labor as opposed to other sources of taxes. For a conceptual discussion of ‘non-tax revenue’, or ‘unearned income’, as opposed to ‘tax revenue’ or ‘earned income’, see Moore (2001) and Morrison (2009). Other terms for the same concept are ‘free goods’ and ‘free resources’ (Smith 2008). For the purposes of this dissertation, it is treated as being roughly equivalent to the term ‘rent’ used in the economics literature.

⁸ Although historically the majority of aid has gone through governments, large sums also bypass governments and go directly to NGO’s. Nevertheless, governments may still exert influence on who operates in the country and what aid can be spent on. The Ethiopian ban in 2009 on foreign agencies working on human and democratic rights, as well as number of other areas, illustrates this point (“Ethiopia imposes aid agency curbs”, BBC News, 6 January 2009).

other for maintaining power and prosperity, respectively. In contrast, the basic trait of aid – that its continued inflow is independent of any investment in the people – makes governments largely autonomous from the people and their productive efforts.⁹ Incentives to comply with citizens' demands, or to develop and maintain institutions that stem from common interests in maintaining production, are diminished with greater dependence on non-tax revenue (see for example Moore 2001; Moore 2004).

Assuming that the main objective of leaders is to remain in power and that they are self-serving revenue maximizers (e.g. Olson 1993; Bates, Greif et al. 2002; Bueno de Mesquita, Smith et al. 2003)¹⁰, I argue that an abundance of aid produces incentive structures for competitive rent-seeking and distributional conflict involving self-serving elites in and outside government. Each paper provides specifications of the common framework concerning a scramble for rents, identifying conditions under which aid may affect the probability of conflict and peace. Hence, here it suffices to introduce some of its basic traits in order to illustrate the general logic.

In line with prevailing practice I conceive of rent-seeking as efforts primarily directed at the distribution of available resources rather than the production of additional resources. Insofar as elites inside, as well as outside, government succumb to rent-seeking, available resources are thus in a sense finite and a zero-sum state of distributional conflict ensues. For governments, rent-seeking behavior may involve various activities aimed at personal enrichment or the channelling of resources to supporters through corruption. Monopolies and unproductive investments are also classical examples of rent-seeking behavior (e.g. Tullock 1967; Kreuger 1974; Tollison 1982; Tornell and Lane 1999; Svensson 2000). For elites challenging the government, rent-seeking means maximizing redistribution of resources in favor of those elites. At its extreme this means incentives for attempts to take power

⁹ Governments relying on foreign aid are not only principally unaccountable to their citizens. They are also essentially unaccountable to donors. The latter point is further elaborated in the section on Data and Method in this introduction.

¹⁰ These assumptions underlie much analysis in political economy addressing links between revenue and regimes in order to explain political survival, regime type, state failure, development and so on. In addition to the references above, see Schumpeter ([1918] 1991), North (1981), Bates and Lien (1985), Levi (1988), Tilly (1990) and Acemoglu and Robinson (2006) to name but a few.

in order to control redistribution of all available resources, something which may result in armed conflict.¹¹

The more resources that can be appropriated, and the more rent-seeking activity on the part of the government, the stronger are also the challengers' incentives for rent-seeking in order to maximize redistribution of available resources. Thus, threats from challenging elites are increased and, facing these threats, time horizons for leaders become even shorter. Distributional conflict thus spirals and an unchecked scramble for rents may develop which should increase the overall probability of armed conflict.

At the core of the logic of a scramble for rents delineated above is thus the interplay between the government and elites outside government. Government behavior shapes incentives for rent-seeking for challenging elites and vice versa. I build here on key elements of Robert Bates' model of political disorder (Bates, Greif et al. 2002; Bates 2008). Bates addresses the role of natural resources rather than foreign aid, but the general logic should apply also to aid. Low tax revenue, large amounts of alternative revenue available to states, and leaders with short-time horizons should make political disorder more likely. Under these conditions, the relative short-term gains from rent-seeking for leaders are greater than long-term gains from protection of tax-generating civilians and the provision of public goods. Reliance on rents makes states detached from tax-generating production and provides leaders with resources that serve as a constant temptation for enrichment. Investment in long-term protection of production does not pay off relative to short-term gains from vast resources at the disposal of the government. Threats against leaders from elites and ordinary citizens excluded from the benefits of power increase as a result of government behavior. The basic conditions Bates spells out as favoring political disorder – low tax revenue, large amounts of other resources available to states, and leaders with short-time horizons – are precisely those that often signify states with high levels of foreign aid.

¹¹ The theoretical framework in this dissertation stresses incentives for rent-seeking for governments as well as for elites outside government which may escalate to violent distributional conflict. This focus on rent-seeking incentives for governments as well as challenging elites separates it from the rent-seeking approach used by Collier and Hoeffler. They argue that aid rents should not motivate rebellion since such rents are not considered an appropriable resource. According to Collier and Hoeffler, the primary motivation for rebels is not the seizure of power but securing access to natural resource rents; aid rents accrue only to the state serving to strengthen the state and deterring rebellion (2002).

Leaders who prioritize short-term gains from rent-seeking over long-term gains from public goods provision that promotes production, must choose policies that allow them to remain in power. Competing elites motivated by the prize of state power, which is augmented by foreign aid, have incentives for rebellion. They have little reason to support the government unless they receive a piece of the pie. If governments do not choose to redistribute revenue to all in the form of public goods – which would require a long-term perspective – co-optation of challengers would thus become an attractive policy alternative (cf. Smith 2008; Fjelde 2009). However, co-optation is costly in the sense that it involves redistribution of resources to potential challengers which may later be used against incumbents. Co-optation also requires the capacity of the government to identify who potential challengers are and to have access to those elites. When states are dependent on non-tax revenue rather than taxation, governments' reach outside the centre is limited as they cannot rely on the institutional structures and networks that accompany tax extraction (e.g. Herbst 2000; Moore 2001). Hence, in these situations governments lack links to the periphery which are necessary for successful co-optation. Rather, co-optation may be a more feasible option for pacifying potential challengers from within the centre as these elites are more easily kept at bay by sharing access to resources. However, in times of shrinking revenue, such co-optation should be difficult to uphold (Reno 2000; Bates 2008).

An alternative policy option for leaders in order to avert challenges if co-optation is not sufficient is thus coercion. Aid recipient governments have been shown to increase military expenditure (Collier and Hoeffler 2007) which indicates a focus on coercion in order to stem threats.¹² On the other hand, aid dependence has also been shown to make states and institutions highly inefficient and to weaken overall state capacity (Knack 2001; Bräutigam and Knack 2004; Djankov, Montalvo et al. 2006). The effects of aid dependence on government capacity may therefore counteract governments' investments in their means for coercion. Thus there seem to be limits to governments' capacity for co-optation as well as to their capacity for coercion which may prevent leaders from staving off all threats against them.

¹² Increased military expenditure could also reflect co-optation of the military forces.

In sum, I argue that the presence of aid creates basic incentive structures for armed conflict. Under conditions that reinforce these incentive structures, distributional conflict involving elites inside and outside the government over available resources should intensify and may ultimately become violent. The papers in this dissertation all begin in this framework of incentives for escalating distributional conflict over rents where each paper attempts to identify and test conditions for when the scramble for rents should be more likely to develop into armed conflict.

Data and Method

Since the aim of this dissertation is to evaluate the existence of a general relationship between aid and conflict, I employ quantitative analysis in all four papers. The scope is global and temporally focused on the period for which data is available for the central variables.

The empirical analyses in this dissertation deal with conflict, defining this as organized challenges to government. The main focus of the dissertation is on one distinct type of violent challenge to government, armed conflict, but in paper 3 I also focus on another type of challenge: coup attempts. For armed conflict, I employ data from the UCDP/PRIO armed conflict dataset in all papers (Gleditsch, Wallensteen et al. 2002). This data is suitable for the purposes of the dissertation since it is available for the entire period for which large-scale foreign aid has been provided to developing countries. UCDP/PRIO conflict data provides yearly data for all countries in the world since 1946. With its low threshold for inclusion, 25 battle-related deaths, truncation is minimized compared to other commonly used conflict datasets that employ higher thresholds.¹³ Paper 3 also deals with another type of political violence, coup attempts, in order to investigate whether foreign aid impacts differently on incentives for coups and armed conflict where rebels originate from outside the state. For this analysis I employ a new comprehensive dataset on coup events covering the period 1950-2010 (Öberg 2011). The scope is global and all coup events, failed as well as successful, are included. I have also parsed out all coup events included in the

¹³ For example, civil war data from the Correlates of War Project as well as from Fearon and Laitin only cover civil wars which have accumulated a total of at least 1000 deaths (Fearon and Laitin 2003; Sarkees and Wayman 2010).

armed conflict data in order to avoid overlap and employ an alternative measure of conflict onset in Paper 3 that can be compared to the onset of a coup event; the onset of civil conflict.

The main independent variable in the dissertation is foreign development aid. The provision of foreign aid on a large scale began after World War II with volumes multiplying in the following decades. Only one comprehensive data source on foreign aid was available while writing the papers in this dissertation; OECD-Development Assistance Committee (DAC) data on official development assistance (ODA) which is available from 1960 (OECD 2008).¹⁴ ODA includes all types of aid that is provided by official agencies, including state and local governments, or by their executive agencies.¹⁵ Aid that is administered to promote economic development and welfare in the recipient states is included in the data, while all types of military aid are excluded. This data is employed throughout the dissertation, which is in line with previous quantitative work on aid. Various alternative measures of ODA have been used in the empirical literature on aid: aid in dollars, aid per capita, the share of aid in national income, and the share of aid in government expenditure and so on. Since the dissertation is focusing on resources available to the state, the relevant measure is the share of aid available to governments as compared to other resources.¹⁶ I use aid as share of gross national income (GNI), in line with prevailing practice. I focus on disbursed aid as opposed to committed aid since I am concerned with the resources that actually reach aid recipient states, not the resources donor states promise these countries and that may or may not be delivered. This comes with a cost as data on disbursed aid is less complete than data on committed aid. However, as studies have shown committed aid to be a poor predictor of disbursed aid (Bulíř and Hamann 2008), the validity of such a measure is brought into question when it comes to resources actually available to governments. Available data on foreign aid has its limitations, not the least since reporting on aid volumes is the responsibility of donors and recipients. Hence, there is no third party reporting. Some donors are excluded

¹⁴ While writing this dissertation another more comprehensive data set on aid was compiled that builds on DAC data, *AidData* (Findley, Hawkins et al. 2009). Future studies of aid and armed conflict could utilize this data as their main data source or for robustness.

¹⁵ Aid that is delivered privately is not included. See OECD (2008) for the full definition of ODA.

¹⁶ An alternative would have been the share of aid in government expenditure. However, this data is much less complete.

from the data, including private donors¹⁷ as well as some states, including the Soviet Union. Unfortunately, there are no simple solutions to these limitations in the data. Nevertheless, since all studies on aid are based on the same main source of data, this allows for comparison between results.

It has been argued that the flow of aid is endogenous to conflict in that donors are likely to adjust aid flows to impending conflict and that estimation should reflect this (e.g. de Ree and Nillesen 2009). Donors may adjust aid flows downward in anticipation of armed conflict, as argued by de Ree and Nillesen, or, donors may increase aid in an effort to stem conflict.¹⁸ In the former case, the results in my empirical analyses regarding aid levels could lead us to falsely rejecting a true relationship, in the latter, estimated correlations may be spurious. However, I argue that it is unlikely that donors are able to anticipate conflict or in any other way adjust aid flows in reaction to conditions in the recipient country to an extent that introduces serious bias.

Firstly, accurately predicting armed conflict is notoriously difficult and as most aid recipients score high on known determinants of conflict, it is simply not reasonable to assume that donors succeed in differentiating between which states will actually experience conflict and which ones will not.¹⁹

Secondly, donors generally have insufficient knowledge about performance success – or simply put, where the money ends up. In principle, donors are obliged to follow up the aid that they deliver. Donors, generally Western democracies, are accountable to their home audiences. However, a number of factors negatively affect donors' ability to effectively evaluate aid delivery and outcomes. Feedback on aid performance is seriously hampered by what has been described as the broken information and accountability loop; there are no routes for feedback between taxpayers in donor states and citizens in recipient states and neither can hold the other accountable for aid that is compromised (Martens, Mummert et al. 2002; Svensson

¹⁷ For some donor states privately distributed aid is negligible as also NGO aid is reported as official aid, (e.g. Sweden), whereas for other donors, substantial amounts are given separately as private aid, e.g. NGOs in the US.

¹⁸ It is reasonable to assume that aid flows are affected by ongoing conflict, not the least because of problems of delivering aid. In the studies in this dissertation that deal with onsets of armed conflict, years of ongoing armed conflict are dropped in the empirical analysis to avoid this problem.

¹⁹ Rather, if donors would react to all high-risk situations where armed conflict may erupt and where there is observable opposition activity, armed or unarmed, there would probably be very little aid delivered altogether and this, we know, is not the case.

2006). The multitude of donors and accompanying donor competition, which is common in many recipient countries and which increases with aid dependence, adds to the problem. With many competing actors involved, recipient governments effectively lose control over budgeting procedures and public expenditure. As no single authority controls the budget, it becomes increasingly difficult knowing which money ends up where (Sobhan 1996; Bräutigam 2000; Moore 2001).²⁰ This has severe consequences for the evaluation of performance and as a result, performance success have disproportionately been measured by volumes of aid flows rather than outcomes on the recipient end (Svensson 2006).²¹ The aid allocation process suffers from fundamental problems of transparency and accountability limiting donor ability to adapt aid flows to developments in the recipient countries. Moreover, donors generally commit to long-term programs for a given recipient and assign a portion of the budget accordingly. Budgeting procedures are slow and therefore unlikely to change from year to year in reaction to events in the recipient country (Svensson 2003; Carey 2007).

Thirdly, aid allocation has also been shown to be relatively insensitive to conditions in recipient countries. Although multilateral agencies such as the World Bank and the IMF provide aid that is at least to some extent conditional on policy in the recipient country (Boone 1996), the majority of foreign aid is bilateral and not multilateral. Empirical studies have shown great variation among individual donor states regarding aid allocation patterns, but it is clear from these studies that, over time and on average, donors have been as much – or more – concerned with their own political and strategic concerns as with needs and conditions in recipient countries. Although recipient need is a primary motivation for many donors, the major determinants of bilateral aid allocation have been found to be colonial ties and current political and economic ties (Alesina and Dollar 2000; Gates and Hoeffler 2004; Berthelemy 2006).²² Although, for example, trade sanctions

²⁰ In addition to the problems of loss of control over the budgeting procedure (see also Sobhan 1996), donor proliferation also leads the recipients to spend a disproportionate amount of time on managing the multitude of donors and projects, to the detriment of domestic institutions and, ultimately, development (Morss 1984).

²¹ Aid evaluation practices have been criticized by many authors, especially regarding to the lack of independent evaluation. Ultimately, evaluation of aid performance suffers from an inherent problem of lacking counterfactuals, that is, knowledge on what would have occurred without a particular aid initiative (e.g. Easterly 2006; Banerjee and He 2008).

²² Donors that stand out as mainly considering the economic and political conditions in the recipient countries are the Nordic countries (Alesina and Dollar 2000; Gates and Hoeffler 2004).

may be imposed in response to a coup, as in the case of the military coup in Burundi in 1993, aid flows have often been maintained. There seems to be a general insensitivity of aid allocation in regard to political conditions in the recipient countries, also when these are deteriorating. For example, average allocation patterns have been largely unaffected by the degree of corruption in a recipient country (Alesina and Weder 2002). Despite poor overall political performance, donors have generally not withdrawn aid as illustrated by the cases of aid to the Mobutu regime in Zaire during the Cold War. In recent years, there have been instances of withheld aid, for example to the Mugabe regime in Zimbabwe and to the Afeworki regime in Eritrea. However, this happened after years of severe political mismanagement and not all types of aid were withheld²³. In sum, donors, who could serve as checks on aid and effectively obstruct destructive rent-seeking behavior (Therkildsen 2002; Collier 2006), seem to play a different role in reality. Distorted incentives also on the part of donors may ultimately result in aid reinforcing rent-seeking behavior in recipient states (Bräutigam 2000; Martens, Mummert et al. 2002; Ostrom, Gibson et al. 2002; Svensson 2006).

Lastly, endogeneity is commonly addressed in statistical analysis by the use of instrumental variable (IV) estimation, i.e. by employing exogenous variables highly correlated with the endogenous variable of interest. IV estimation is commonly used in studies of the effects of development aid on growth. In that case instrumentation is warranted since aid levels are likely to be endogenous to growth levels. However, for reasons spelled out above, I argue that the same extent of endogeneity does not necessarily apply to aid and armed conflict. Aid flows can be assumed to be affected by ongoing conflict, not the least because of problems of delivering aid. However, the studies in this dissertation deal with onset of armed conflict as opposed to incidence of armed conflict and drop years of ongoing armed conflict in the empirical analysis to circumvent this particular problem. Moreover, the fruitfulness of instrumentation is highly dependent on the strength of the instruments as measures of the endogenous variable of interest, on instruments being truly exogenous and on the instrument only affecting the dependent variable through the endogenous variable. Questions regarding both strength and exogeneity of instruments have been raised, particularly

²³ In Eritrea certain types of aid have been cut at the government's own request rather than at the initiative of donors.

for recent decades (see Rajan and Subramanian 2008).²⁴ Since the degree of endogeneity of aid to conflict with regard to donor anticipation has plausibly been overstated, and for lack of appropriate instruments, I refrain from IV estimation.

Presenting the Papers

All four papers in this dissertation originate in a common framework in which foreign aid produces incentive structures for a rent-seeking scramble among elites. Within this framework each paper identifies specific conditions under which foreign aid should increase these incentives and raise the probability of armed conflict. In the following, the papers in the dissertation are summarized focusing on the research gap, my argument, research design, main findings and contributions for each paper.

PAPER I. AID, INSTITUTIONS AND ARMED CONFLICT

In “Aid, Institutions and Armed Conflict” I examine the conditioning effect of institutions on the impact of aid on the risk of armed conflict. Previous empirical research which has failed to find a relationship between levels of aid and the likelihood of armed conflict has modelled a direct and unconditional relationship (Collier and Hoeffler 2000; Arcand and Chauvet 2001; Collier and Hoeffler 2002; de Ree and Nillesen 2009). I argue in this paper that we should expect the effect of aid on the risk of armed conflict to be conditional on political institutions, specifically the degree of checks and balances on executive power. This is consistent with theoretical models on how aid leads to incentives for rent-seeking (e.g. Grossman 1992; Tornell and Lane 1999) which presuppose an absence of institutions. However, this key condition of an absence of institutions has been overlooked in previous empirical studies of aid and armed conflict. The presence of aid, i.e. a type of non-tax revenue, should prevent – or erode – the bond of accountability between state and citizens that normal production and taxation produces and which puts constraints on governments’ policies. When there are also weak institutionalized limits to executive power, leaders generally have dis-

²⁴ A more general discussion about the merits and limitations of instruments is provided in, for example Sovey and Green (2011).

cretionary control over government resources. Under such conditions, the full potential for competitive rent-seeking and distributional conflict should be released. The lure of power should invite challenges from excluded elites. The more resources available to the state, the stronger should these challenges be (Grossman 1992; Bates, Greif et al. 2002; Bates 2008). Furthermore, the expectation of a mediating effect of institutions on the relationship between aid and armed conflict is consistent with research on aid and the economy (e.g. Burnside and Dollar 2000) as well as research on the effects of other types of rents and armed conflict (Humphreys 2005; Fjelde 2009).

The empirical analysis is based on country year data for aid recipient states in the period 1960-2004. In line with my expectation, I find that higher levels of aid increase the probability of armed conflict in states with few checks and balances,²⁵ whereas I find no corresponding effect of higher levels of aid on the risk of armed conflict in states with a higher degree of institutionalized constraints on leaders. The findings in this study qualify the finding from previous research that aid has no effect on the risk of armed conflict and instead suggests that the relationship between aid and armed conflict is conditional on the political context in recipient states. This highlights the crucial absence of institutions in theoretical models of rent-seeking effects of aid which previous empirical studies have overlooked. Consequently, although this implies that aid contributes to incentives as well as opportunities for rebellion in a context where appropriate institutions are not in place, the existence of institutions that regulate leader's behavior may thus shield aid recipients from adverse effects of large volumes of aid.

PAPER II. AID AND ARMED CONFLICT: A THRESHOLD EFFECT?

In "Aid and Armed Conflict: A Threshold Effect?" I examine the relationship between foreign aid and the onset of armed conflict. Although previous studies have considered the possibility of different effects at different levels of aid by testing for a curvilinear relationship between aid and armed conflict, they have not considered the possibility of more complex relation-

²⁵ In a very recent book, Besley and Persson model a conditional effect of institutions on the effects of aid on civil war. They also find empirical support for aid contributing to civil war when there are few constraints on executive power. However, it should be stressed that their dependent variable is different than mine as they focus on the incidence of civil war as opposed to the onset of civil war (Besley and Persson 2011).

ships. I argue that we should expect a threshold effect of foreign aid on conflict risk in that aid should only begin to have an effect on the risk of conflict when it has reached some threshold. Two central arguments are forwarded in this paper for why aid should increase conflict, both of which, I argue, imply a threshold effect. First, focusing on incentives for rebellion induced by an increase in the size of the prize on seizing power (cf. Grossman 1992), waging war is costly, and the perceived gains must outweigh the costs of rebellion. Therefore, only if a country receives a sufficiently large amount of aid to serve as a valuable prize, would the rebels be tempted to take power. This implies the potential existence of a threshold effect of aid on conflict risk. Second, focusing on aid dependence, rent-seeking behavior has been found to increase with aid dependence (e.g. Svensson 2000; Economides, Kalyvitis et al. 2008). Aid dependence has also been found to lead to weakened state capacity (Knack 2001; Bräutigam and Knack 2004; Djankov, Montalvo et al. 2006). Thus, aid dependence not only increases rent-seeking, but also provides the opportunity for competitive rent-seeking to translate into actual rebellion as the state is weakened and less capable of averting rebellion. We should thus see a difference between aid recipients that are aid dependent and those that are not, which also implies a threshold effect of aid on the risk of conflict.

The hypothesis of a threshold effect is empirically evaluated employing country data for the period 1960-2004. The analysis provides support for the hypothesized threshold effect of aid on the risk of armed conflict. Aid increases the risk of armed conflict, but only with high levels of aid, which serves as a proxy for aid dependence. A threshold effect is consistent with other empirical research on the effects of aid on society. Thresholds for when aid begins to have malign effects have been identified for aid's effect on growth (e.g. Lensink and White 2001) as well as on governance (e.g. Bräutigam 2000; Moss, Pettersson et al. 2005). In both cases aid dependence and its associated incentives for rent-seeking have been suggested as explanations for why aid becomes destructive. A threshold effect may help explain why previous empirical studies have failed to establish a direct link between aid and conflict.

PAPER III. AID CHANGES, ARMED CONFLICT AND COUPS, 1960-2004

In "Aid Changes, Armed Conflict and Coups, 1960-2004" I examine whether changes in aid flows impact on the risk of armed conflict. Previous

empirical research on the relationship between aid and conflict has mainly focused on levels of aid (Arcand and Chauvet 2001; Collier and Hoeffler 2002; de Ree and Nillesen 2009; Ruggeri and Schudel 2010; Sollenberg 2010; Sollenberg 2011). However, dynamic aspects of aid flows may also affect conflict risk. This study focuses on the destabilizing impact of changes in the supply of rents (cf. Reno 2000; Blattman 2005; Bates 2008), which has not yet focused on changes in aid flows. I argue that shortfalls in aid should trigger and intensify rent-seeking scrambles between elites inside and outside the government which have been incited by an abundance of aid rents. When elites are facing shortened time horizons, as is the case when substantial sources of revenue suddenly shrink, rent-seeking should be accelerated, and become more competitive and potentially violent (e.g. Reno 2000; Bates, Greif et al. 2002; Bates 2008). Substantial reductions of government revenue affect the government's ability to uphold policies for remaining in power. On the other hand, increases in aid may also increase incentives for rebellion through the raised value of holding state power thereby inviting or intensifying power struggles (Grossman 1992; Bates, Greif et al. 2002; Dal Bó and Dal Bó 2011). In this study, I extend the analysis beyond armed conflict and apply it also to coup attempts in order to explore the empirical scope of the argument on aid shortfalls. This is the first study that addresses the potential effects of aid shortfalls on coup risk.

The empirical analysis is made on a global dataset for the period 1960-2004 employing a new dataset on coup attempts (Öberg 2011). In line with my expectation, I find that negative aid changes increase the probability of armed conflict. However, positive aid changes have no effect on the risk of armed conflict. The same overall results obtain for an alternative conflict variable where coup attempts have been excluded, civil conflict, and for coup attempts. These results are consistent with aid shortfalls representing shocks to the flow of rents that accelerate rent-seeking behavior and distributional conflict between elites inside and outside the government. This notion is supported empirically for two important types of challenges to government; armed conflict and coup attempts. The empirical analysis also suggests, in line with paper 2, that high aid levels increase the risk of armed conflict. In contrast, I find preliminary support for a reduced coup risk in countries with higher levels of aid. This is also consistent with my argument on aid shortfalls as a type of shock to the supply of rents in a context where elites compete over rents. Aid rents benefit elites within the state, but elites who are excluded or deprived of aid rents may challenge the government

over access to those rents. This implies that aid shortfalls may create new excluded elites from within the state. This study is the first that examines the effect of sudden shortfalls in aid on both armed conflict and coups. This study demonstrates the fruitfulness of a joint focus on armed conflicts and coups and is thus a contribution to the literature which has so far treated these two phenomena in separation.

PAPER IV. FROM BULLETS TO BALLOTS: USING THE PEOPLE AS ARBITRATORS TO SETTLE CIVIL WARS

“From Bullets to Ballots: Using the People as Arbitrators to Settle Civil Wars” was published as a chapter in *Resources, Governance and Civil Conflict*, 2008. Öberg, Magnus & Kaare Strøm (Routledge: London/New York). This study investigates the conditions under which civil wars are brought to an end through the holding of elections. This question has not previously been addressed in quantitative research. I do this by testing a set of implications of a theoretical argument formulated by Leonard Wantchekon (Wantchekon and Neeman 2002; Wantchekon 2004) which builds on Mancur Olson’s work on the transition from anarchy to order (Olson 1993) and on Adam Przeworski’s work on the uncertainties of democracy (Przeworski 1991). The logic for why the warring parties may decide that arbitration by the people is their best alternative, presupposes that citizens and governments are linked through taxation and representation. When the main source of revenue is non-tax revenue, this bond between government and citizens is absent and incentives for choosing democracy do not apply. Therefore, if the state derives a substantial part of its revenue from sources other than taxes, conflict termination through the holding of elections should be less likely.

I empirically test this set of implications on a dataset on armed conflicts for the period 1989-2000. For non-tax revenue I use three measures: primary commodity exports, foreign military support, and foreign development aid. The results on primary commodity exports and foreign military support suggest that access to such revenue reduces the likelihood that conflict is ended by popular arbitration. However, the results for development aid are inconclusive. This study suggests that the nature of government revenue produces differential incentives to warring parties for choosing peace or continued war.

Conclusions

CONTRIBUTIONS

The present dissertation offers a theoretical contribution to extant literature on the issue of whether and how foreign aid is related to conflict and peace. The allocation of foreign aid and its effects on society has commonly been analysed in a rent-seeking framework. However, this dissertation is the first to stress the potential of aid to produce incentive structures for elite rent-seeking scrambles and to specify conditions under which such incentives may translate into increasingly competitive rent-seeking raising the probability of conflict. It demonstrates the fruitfulness of this framework for the analysis of aid and armed conflict. A key aspect in all four papers is the nature of government revenue and how non-tax revenue – or rents – such as aid, may produce particular incentives for rebellion.²⁶

This dissertation also offers empirical contributions. The conditions I have identified in the literature for when aid should affect the risk of conflict have not previously been subjected to quantitative study. Therefore, all four papers offer novel empirical findings that further our understanding of the link between aid and conflict. In addition, I unpack the dependent variable by analysing armed conflict and coup attempts separately, which has previously not been done in relation to aid, and this is the first study that evaluates the link between dynamic aspects of aid and coup risk.

The joint theoretical and empirical contributions for each paper can be summarized in the following way. Paper 1 demonstrates the importance of taking institutions into account when modelling the relationship between aid and armed conflict. The stylized situations in theoretical models demonstrating that aid produces incentives for rent-seeking and conflict (cf. Grossman 1992; Tornell and Lane 1999) presuppose an absence of institutions. Incentives for spiralling competitive rent-seeking, which may translate into armed conflict, materialize in political contexts where leaders are unaccountable. A conditioning effect of institutions is thus suggested, but this has been overlooked in previous research. The fruitfulness of specifying the

²⁶ More generally, my dissertation also provides another piece to the civil war literature on rents. This literature has mainly dealt with natural resources, notably oil, and has found oil wealth and oil dependence to be associated with the onset of armed conflict (e.g. Fearon and Laitin 2003; Humphreys 2005; Ross 2006; de Soysa and Neumayer 2007; Basedau and Lay 2009; Fjelde 2009).

form for the relationship between aid and armed conflict is also shown in Paper 2. The probability of armed conflict as a result of strengthened incentives for rent-seeking should only be increased when aid levels are sufficiently high to constitute a valuable prize for rebels, or when states are aid dependent. This suggests the existence of a threshold effect. Non-linearity of this type has not previously been incorporated into the empirical evaluation of aid and armed conflict. Paper 3 demonstrates the fruitfulness of analysing dynamic aspects of aid. Shortfalls in the supply of aid rents should accelerate the scramble over rents in situations where elites compete over such rents and this study suggests that this may result in armed conflict as well as coups. The distinction between armed conflict and coups in regard to the effects of aid is a novel contribution both theoretically and empirically. Furthermore, Paper 3 is the first global study that examines the relationship between aid and coup risk, and the first study that examines dynamic aspects of aid on coup risk. Finally, the role that an abundance of non-tax revenue may play in terminating armed conflict and how this can prevent incentives for moving toward democracy is demonstrated in Paper 4. This topic has not previously been empirically investigated.

IMPLICATIONS AND FUTURE RESEARCH

A number of implications of the findings in this dissertation can be identified that may serve as the basis for future studies. First, there are several possible avenues regarding design. Since the forwarded explanations for how foreign aid impacts on conflict do not explicitly pertain to aid but rather to aid as a type of non-tax revenue, or rent, an obvious next step would be to test the hypotheses in the dissertation on the larger category of non-tax revenue. Morrison (2009) has done similar work on the relationship between non-tax revenue and regime change finding no essential difference between the effects of oil and aid. Instead, the nature of the revenue in terms of its role in the economy and the incentive structures it gives rise to – rather than the source of that revenue – has been argued to explain its effects on regime change (Smith 2008; Morrison 2009). Data may have to be improved and extended for empirical tests on propositions for this larger category. Moreover, the studies in this dissertation assume that the effect of aid on the risk of conflict works through rent-seeking behavior, rather than testing it directly. Therefore, an obvious way forward would be to explicitly model mechanisms, particularly in regard to rent-seeking. Another aspect of

this is modelling how states redistribute resources more generally, depending on what the sources of revenue are, and how such patterns play into conflict risk.

Second, given the degree of complexity of the relationship between aid, rent-seeking and conflict, which may also include other economic and political factors with several potential indirect and counteracting effects, there are methodological challenges to the continued study of this topic. Introducing more complete models that can take complex causal relationships into account is warranted. This may imply models that allow for the joint determination of aid, rent-seeking behavior and conflict. A fairly recent study on aid, corruption and growth serves as an example where various indirect and direct effects are addressed simultaneously in the same model (Economides, Kalyvitis et al. 2008).

Third, addressing problems in data on foreign aid is essential. This includes a more careful evaluation of potential bias in aid data, particularly in regard to missing data. Correcting for this through the imputation of data is a first step, especially for missing data in the Cold War period when for example aid from the Soviet Union is not included in the data. Another data challenge concerns the coding of fungible versus non-fungible aid. The fungibility of aid is an assumption that underlies the analyses in this dissertation as well as in other studies on the effects of aid. The extent of fungibility has been a topic among economists (e.g. Feyzioglu, Swaroop et al. 1998) but of particular interest for conflict research is the extent to which aid is fungible in relation to sectors that matter for conflict, particularly regarding spending on deterrence. Work remains here in order to establish what may be reasonable assumptions for the degree of fungibility. Continued empirical analysis of the relationship between aid and political instability would benefit from a disaggregation of aid into fungible and non-fungible aid, but also in regard to other potential ways of diverting aid.

Finally, this dissertation has spelled out a set of conditions under which foreign aid may be linked to armed conflict. A modest interpretation of these results is that under the conditions investigated in the dissertation, aid does not counterbalance other destructive developments to an extent where it promotes peace. This is sufficient cause for placing more effort on evaluation and detailed research that allows for identifying exactly what it is that works for maintaining peace – and what does not work. Much has been learned about problems in aid allocation in past decades, but whether this has translated into appropriate donor policies is an empirical question which

has not yet been sufficiently addressed. Therefore, careful investigation of current aid practices compared to that of previous decades is warranted if we wish to know if things have improved. This implies re-evaluating the results in this dissertation with a design that pays attention to changes in aid allocation over time and to the policies of individual donors.

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